Price Norm

Pascal Michaillat
https://pascalmichaillat.org/c2/

<u>Possible price norms</u>:

- Nash bargaining b/w seller & buyer
- Surplus sharing
- Other forms of bargaining
- Fixed price (parameter)
- Rigid price (function of the parameters)
- Competitive price $\rightarrow$ price that ensures aggregate efficiency (r competitive search)

<u>Price norm</u>: Assume that all prices are given by a price norm:

$$P = p^n (\text{parameters}, \text{aggregate variables})$$

$\hookrightarrow$ $$P = p^n (\text{parameters}, x)$$

<u>Goal</u> Set a price norm that reflects how prices are set <u>in practice</u> $\rightarrow$ empirically valid